

<p style="text-align: right;">Page 1385</p> <p>1 date of Exhibit 29, September 24th, and when the 2 audit committee met in October bringing to the 3 attention of Mr. Buettner that there was an 4 \$80 million write-off being proposed? 5 A. That may have been brought to Bill's 12:23PM 6 attention. 7 Q. Do you recall actually doing that? 8 A. Personally? 9 Q. Yes. 10 A. I don't remember specifically. 12:23PM 11 Q. Do you know whether anybody at AHERF 12 brought that to the attention of Bill Buettner 13 before the October 1996 audit committee? 14 A. I -- I don't know. I mean, Bill was 15 certainly fully aware of the problems in the 12:23PM 16 accounts receivable area. And, you know, in 17 terms of the -- when they would have been 18 evaluating June '96 allowances, I mean, it's not 19 like these numbers were -- you know, it was like 20 we've been talking about. There was a pretty 12:24PM 21 thorough analysis done in June '96, and I -- I 22 can't say specifically whether this -- like this 23 memo and some of the numbers were discussed. I 24 don't -- I don't remember offhand, but I 25 certainly don't remember it being some, you know, 12:24PM</p>	<p style="text-align: right;">Page 1387</p> <p>1 Q. Now, you testified a little bit last 2 time about the three attachments, Attachments A 3 through C, which are three scenarios for new bad 4 debt reserving methodologies for the DVOG 5 hospitals, right? 01:37PM 6 A. Yes. 7 Q. And my question about those scenarios 8 is: Could you explain to us, please, how you 9 went about coming up with the loss percentages in 10 these different scenarios? 01:37PM 11 A. This was -- it was just a number of 12 different ways to potentially look at the bad 13 debt reserve computation, under a couple of 14 different scenarios. Some is a little more 15 global, where the others -- Scenario 1 is pretty 01:37PM 16 high level. Scenarios 2 and 3 got into a little 17 bit more detail in terms of trying to split the 18 categories out by either, you know, different 19 aging categories or by payor. 20 Q. And Scenario 3 is the scenario that 01:38PM 21 ended up being adopted; is that right? 22 A. I believe so. 23 Q. And just to make sure we're on the 24 same page with how this memo works: In effect 25 for Hahnemann University Hospital, that's the 01:38PM</p>
<p style="text-align: right;">Page 1386</p> <p>1 secret. 2 Q. All right. So you can't recall 3 anybody telling Bill Buettner about the 4 \$80 million write-off before October 15th, 1996? 5 A. I -- what's October 15th? 12:24PM 6 Q. The date of the audit committee 7 meeting. 8 A. Oh. I don't know. 9 MR. RYAN: Okay. Why don't we take 10 a break. 12:24PM 11 THE VIDEOGRAPHER: We're off the 12 record at 12:24 p.m. 13 (Lunch recess.) 14 THE VIDEOGRAPHER: We're back on the 15 record at 1:36 p.m. 01:36PM 16 Q. (BY MR. RYAN) Good afternoon, 17 Mr. Cancelmi. 18 A. Good afternoon. 19 Q. Let me hand you another exhibit that 20 you were shown by counsel for the creditors 01:36PM 21 committee. It's Exhibit 30. Now, this is a memo 22 from you to Mr. Spargo, dated September 30th, 23 1996, again on the topic of Delaware Valley bad 24 debt reserves; is that right? 25 A. Yes. 01:37PM</p>	<p style="text-align: right;">Page 1388</p> <p>1 Scenario 3 on Bates page 230; and for 2 MCP Hospital, it's the Scenario 3 on Bates 3 page 231; and for the three other DVOG hospitals, 4 it's the Scenario 3 on Bates page 232? 5 A. Yes. 01:38PM 6 Q. Now, when you came up with these loss 7 percentages, did you do any type of review of the 8 historical payment record for the different payor 9 categories for these DVOG hospitals? 10 A. Our department really didn't go into 01:39PM 11 specific payment history type of analysis. Some 12 of this was more based on historical loss 13 patterns and just some discussions internally, 14 you know, maybe self-pay, do 100% after it gets 15 so old, you know, half of it before it gets that 01:39PM 16 old; medical assistance was over 180 days. A lot 17 of times if an account is that old, you can't 18 bill it. So it was, you know, more just trying 19 to set forth maybe a couple of different ways to 20 go about looking at something. 01:39PM 21 Q. And this is a review that you and 22 Robin Schaffer undertook; is that right? 23 A. We put it together. I mean, a number 24 of different people got involved in looking at 25 this, you know, Spargo and Chuck Morrison. And, 01:40PM</p>

<p style="text-align: right;">Page 1393</p> <p>1 scenarios in their mind; but I think ultimately 2 the number 3 scenario was the one we went with. 3 Q. And what you're talking about about 4 having 10 or 20 accountants in a room who would 5 come up with 10 or 20 different answers is all 01:45PM 6 part of what we've been talking about, that the 7 bad debt allowance is an estimate and you've got 8 to apply judgment to it? 9 A. Yes. 10 Q. There's no single right answer? 01:45PM 11 A. Not necessarily. 12 Q. Let me show you -- 13 MR. RYAN: Actually, surprisingly, 14 this doesn't seem to have been marked yet, so 15 let me mark as a new exhibit -- it will be 01:45PM 16 Exhibit 2280 -- the document with Bates numbers 17 PR-SS 02854 through 59. 18 (Exhibit 2280 marked.) 19 Q. (BY MR. RYAN) Do you recognize 20 Exhibit 2280, Mr. Cancelmi? 01:46PM 21 A. Yes. 22 Q. What is it? 23 A. It's a memo I wrote on Delaware Valley 24 bad debt reserve calculations. 25 Q. And is this one of a series of memos 01:46PM</p>	<p style="text-align: right;">Page 1395</p> <p>1 specifically at Bates 2856 to 2857, Attachment 1 2 to the memo, when we look at the loss percentages 3 and the payor categories, right? 4 A. Yes. 5 Q. So as of December 31st, 1996, making 01:48PM 6 those two assumptions -- that is, that the 7 write-off takes place in its entirety and that 8 the organization switches to the new bad debt 9 reserving loss percentages -- you calculated the 10 shortfall at \$53,668,000? 01:48PM 11 A. Yes. 12 MR. RYAN: Let me mark, please, as 13 Exhibit 2281 a document with Bates numbers 14 DC4564, pages 1 to 2. 15 (Exhibit 2281 marked.) 01:49PM 16 Q. (BY MR. RYAN) Now, Exhibit 2281 is a 17 version of the X-files as of December 31st, 1996, 18 right? 19 A. It's a summary of the reserves AHERF 20 had on various of its affiliates' financial 01:50PM 21 statements. 22 Q. That's the type of documents that were 23 sometimes referred to as the X-files, right? 24 A. Yeah, extra reserves. 25 Q. Now, most of the items on the first 01:50PM</p>
<p style="text-align: right;">Page 1394</p> <p>1 you wrote over time during the fiscal year 1997 2 in which you updated people at AHERF to whom you 3 reported about what the level of the bad debt 4 reserve shortfall was? 5 A. Yes. 01:47PM 6 Q. Let me make sure I understand a couple 7 things about the way that you went about 8 calculating this bad debt reserve shortfall. 9 This is a bad debt reserve shortfall assuming 10 that the \$81 million write-off took place in its 01:47PM 11 entirety, right, even though the write-off hadn't 12 yet all taken place at the time you wrote the 13 memo? 14 MR. TORBORG: Object to form. 15 A. Yes. It says the bad debt reserve 01:47PM 16 shortfalls after the projected future write-offs. 17 Q. (BY MR. RYAN) And is it also the case 18 that this is a calculation of a bad debt reserve 19 shortfall assuming the adoption of the new bad 20 debt reserve methodology that you and 01:47PM 21 Ms. Schaffer came up with? 22 A. This looks like the estimated reserves 23 were calculated based on the scenario in number 3 24 that was outlined in my memorandum. 25 Q. All right. And we can see that 01:48PM</p>	<p style="text-align: right;">Page 1396</p> <p>1 page of Exhibit 2281 are positive numbers, but 2 there are a few that are negative numbers 3 indicated by how they're in parentheses. For 4 example, at St. Christopher's Hospital for 5 Children, there's a temple underaccrual in the 01:50PM 6 amount of \$2,500,000, right? 7 A. Yes. 8 Q. Could you explain to us, please, what 9 the significance was of a negative number on the 10 Analysis of Reserves schedule? 01:51PM 11 A. For the negative, it would have been 12 where it looks like there's a possibility that 13 you would need to accrue for something for that 14 particular transaction. 15 Q. So that was, in affect, an exposure 01:51PM 16 item? 17 A. Yes. 18 Q. And now on the second page of 19 Exhibit 2281, there are two items in their own 20 section headed "Potential Exposure Items" down at 01:51PM 21 the bottom, and do you see that the first one is 22 a bad debt reserve shortfall in the amount of 23 \$54 million? 24 A. Yes. 25 Q. Is it your understanding that that is 01:51PM</p>

Page 1397

1 the same \$54 million that we saw for the bad debt
 2 reserve shortfall as of December 31st, 1996, in
 3 your February 7th memo we marked as Exhibit 2280?
 4 A. Yeah, if it's -- yes. I mean, it's
 5 the same concept. I don't -- this was as of 01:52PM
 6 probably November in that February 7th memo --
 7 oh, no, maybe not. December 9th -- yeah, so
 8 that -- yeah, would correspond.
 9 Q. Okay. So that looks to you like it's
 10 the same bad debt reserve shortfall? 01:52PM
 11 A. Uh-huh.
 12 Q. And the fact that you had listed the
 13 bad debt reserve shortfall here on the X-files in
 14 this manner meant that you believed that it was a
 15 potential exposure item that the organization 01:52PM
 16 faced?
 17 A. Yeah, that's what -- that's how it was
 18 labeled, "Potential Exposure Items."
 19 Q. Now, the next potential exposure item
 20 is temporarily restricted funds in the amount of 01:52PM
 21 \$35,800,000, right?
 22 A. Yes.
 23 Q. And you see that same amount is listed
 24 as a positive entry under "AHERF" about halfway
 25 down the second page of page 2? 01:53PM

Page 1398

1 A. Yes.
 2 Q. And I take it that AHERF there refers
 3 to AHERF, the parent corporation?
 4 A. Correct.
 5 Q. And was that \$35,800,000 amount a 01:53PM
 6 reference to what was at December 31st, 1996, the
 7 temporarily restricted balance of the Lockhart
 8 trust funds?
 9 A. I believe so, yes.
 10 MR. TORBORG: Object to form. 01:53PM
 11 Q. (BY MR. RYAN) And why were you
 12 carrying the Lockhart trust fund balance as a
 13 potential exposure item on the X-files?
 14 MR. TORBORG: Object to form.
 15 A. Because the funds had been classified 01:53PM
 16 as temporarily restricted, and depending on the
 17 classification, whether that ultimately ended up
 18 being the final resolution of that, it
 19 potentially would be an exposure item.
 20 Q. (BY MR. RYAN) Because you knew that 01:53PM
 21 there was the potential that they were
 22 misclassified?
 23 A. Well, I wouldn't say that. There
 24 was -- this was on the Pittsburgh side, and there
 25 was -- you know, I knew that there was -- you 01:54PM

Page 1399

1 know, there was these Lockhart funds and, you
 2 know, they classified them as temporarily
 3 restricted, and I guess, you know, the debate
 4 was, you know, should it be unrestricted, should
 5 it be temporarily unrestricted, should it be 01:54PM
 6 permanently restricted?
 7 Q. Right. So you knew at this time, when
 8 you were working on the analysis of reserves in
 9 Exhibit 2281, that there was a potential that the
 10 Lockhart trust funds were misclassified? 01:54PM
 11 A. That was my understanding, that
 12 they -- that was being evaluated.
 13 Q. Being evaluated by others at AHERF
 14 involved in the western region accounting?
 15 A. Yes. 01:54PM
 16 MR. RYAN: Let me mark, please, as
 17 Exhibit 2282 a document with Bates numbers
 18 DC4563, pages 1 to 6.
 19 (Exhibit 2282 marked.)
 20 Q. (BY MR. RYAN) Now, Exhibit 2282 01:55PM
 21 actually consists of a number of different
 22 schedules, which we found in your files in
 23 consecutive order. So if you wouldn't mind just
 24 taking a moment to flip through them, I'm going
 25 to ask you some questions about how they relate 01:55PM

Page 1400

1 to each other.
 2 A. You can ask the question.
 3 Q. All right. Now, these are various
 4 versions of reserve analyses in the June 1996 or
 5 as of June 30th, 1996 time frame, right? 01:56PM
 6 A. Yes.
 7 Q. Now, based on your practice of working
 8 with reserve schedules of this type from prior
 9 periods, then updating them, do you think that
 10 the one which is earliest in time in this 01:56PM
 11 package, Exhibit 2282, is the last two pages?
 12 A. That's what it looks like. Whether
 13 there was one before this, I don't know.
 14 Q. Sure. I'm just talking about the ones
 15 that we have here in Exhibit 2282. 01:56PM
 16 And is that your handwriting on the
 17 last page of the exhibit?
 18 A. Yes.
 19 Q. And you're writing down additional
 20 items to put on the X-files schedule at AGH and 01:57PM
 21 at AHERF, the parent corporation, right?
 22 MR. TORBORG: Object to form.
 23 A. Yeah, the second page is -- yeah,
 24 they're being pencilled in for AGH and AHERF.
 25 Q. (BY MR. RYAN) At AGH, it includes 01:57PM

Page 1413

1 hospitals, somebody who could have stood up and
 2 said, "I don't want Graduate reserves transferred
 3 to DVOG," whether those transfers might have been
 4 undone as well?
 5 MR. TORBORG: Object to form and 02:14PM
 6 foundation.
 7 A. Yes, there was comparable people at
 8 Graduate in the comparable position of Dionisio
 9 and Moyer.
 10 Q. (BY MR. RYAN) Chuck Morrison? 02:14PM
 11 A. Chuck Morrison would be one.
 12 Q. Who was also CFO of DVOG?
 13 A. Correct.
 14 Q. So he didn't have any Graduate
 15 interest separate from DVOG? 02:14PM
 16 A. I'm not the one to answer that, but he
 17 was CFO of both of them. There was Matt Dowling,
 18 he was the CFO over the Graduate hospitals; and
 19 Neal Lubarski. There was actually more on the
 20 Philadelphia side in those comparable roles than 02:14PM
 21 there was on the Pittsburgh side.
 22 Q. All right. In any event, you never
 23 heard any of those individuals lodge any kind of
 24 protest about the transfer of reserves from
 25 Graduate? 02:14PM

Page 1414

1 MR. TORBORG: Object to form.
 2 A. No.
 3 Q. (BY MR. RYAN) Let me hand you,
 4 Mr. Cancelmi, what's previously been marked as
 5 Exhibit 32. If you could just take a moment to 02:14PM
 6 flip through this and generally familiarize
 7 yourself with what this document is without
 8 obviously reading every page, since it's lengthy.
 9 A. Okay.
 10 Q. Do you recognize this document, 02:15PM
 11 Mr. Cancelmi?
 12 A. Yes.
 13 Q. And what is it?
 14 A. It's a summary of the patient
 15 accounting department, their initiatives and I 02:15PM
 16 guess the progress they've been making,
 17 et cetera.
 18 Q. All right. Sort of a similar document
 19 to the accounts receivable narrative we looked at
 20 earlier today and marked as an exhibit, 02:16PM
 21 Exhibit 102?
 22 A. Similar.
 23 Q. And let me just try to help you place
 24 this in time, because it is undated, like the
 25 other one. Top of page 10, there's a reference 02:16PM

Page 1415

1 to AHERF's gross accounts receivable days in
 2 December 1996.
 3 Is that your handwriting in the upper
 4 right corner on the first page?
 5 A. Yes. 02:17PM
 6 Q. It's something you sent to Chuck
 7 Lisman and Robin Schaffer?
 8 A. Yes.
 9 Q. And you wrote, "I thought both of you
 10 would be interested in this propaganda, David"? 02:17PM
 11 A. Yes.
 12 Q. Can you explain to us why you referred
 13 to this report as "propaganda"?
 14 A. Yeah, they -- it portrays a picture
 15 that a substantial amount of progress was being 02:17PM
 16 made, and probably around the time this thing was
 17 written, there was, you know, were a lot of
 18 issues going on in the billing department which
 19 would seem to potentially contradict it, but...
 20 Q. I take it that by this time, in the 02:17PM
 21 early 19- -- early calendar 1997 time frame, you
 22 had lost a lot of the patience you might still
 23 have had in calendar 1996 about improvements?
 24 MR. TYCKO: Lost a lot of the what?
 25 Q. (BY MR. RYAN) The patience that you 02:18PM

Page 1416

1 might have had back in early calendar 1996 about
 2 the timetable for improvements at the Patient
 3 Financial Services Group.
 4 A. I don't know if I had patience to
 5 lose, since it wasn't my area of responsibility, 02:18PM
 6 but, you know, this was a summary, certainly
 7 their point of view. You know, you'd see some
 8 things that would suggest otherwise. So that
 9 was -- you know, everyone had their different
 10 points of view on what some of the problems were. 02:18PM
 11 Q. Do you know who, other than, of
 12 course, you and Chuck Lisman and Robin Schaffer,
 13 received copies of this document, Exhibit 32?
 14 A. I guess I got it from Steve. I can't
 15 say for sure. It was my understanding it was 02:18PM
 16 fairly widely distributed, if I recall. And I
 17 think we had conversations with Coopers about
 18 this thing, asking whether they'd seen it and,
 19 you know, saying, "Hey, there's some -- a rosy
 20 picture being painted, you know, that seems to 02:19PM
 21 contradict what seems to happen every month," but
 22 I don't know exactly every person who got it.
 23 Q. Were you concerned at the time that a
 24 report like Exhibit 32 was being handed out
 25 widely when you thought it was really a 02:19PM

40 (Pages 1413 to 1416)

Page 1417

1 propaganda?

2 A. My point of view was, you know, it had
3 some comments in here that, you know, seemed to
4 contradict what was -- you know, we were seeing
5 every month; but I wasn't involved in the billing 02:19PM
6 department and, you know, you have to get in
7 there and really evaluate that in terms of
8 whether, you know, what's actually being
9 indicated is entirely appropriate, and it seemed
10 like some of the results of -- I think it was 02:19PM
11 pretty evident that some of the performance was
12 deteriorating in the billing department.

13 Q. Did you have a view at the time as to
14 what the reason was for why the patient billing
15 department was putting out information that you 02:20PM
16 thought wasn't reliable?

17 A. Well, I didn't know if I could -- I
18 didn't know if it was reliable or not. Why they
19 were putting this out, I don't know. I don't --
20 I got this after the fact, I believe. Like I 02:20PM
21 said, I don't know exactly who it went to, but I
22 guess because of all the issues in the billing
23 department, people were asking for updates on the
24 status of how the department's performing.

25 Q. Do you remember telling anybody 02:21PM

Page 1419

1 there was a disconnect between what the numbers
2 were and -- versus some of the conclusions or
3 summaries of what some of the issues were between
4 the accounting area versus the billing area. It
5 was widely known. 02:22PM

6 Q. Do you remember any specific
7 conversations you had with anybody from Coopers &
8 Lybrand about this report marked as Exhibit 32?

9 A. I can't say 100% for sure, but I think
10 we had conversations regarding the summary that 02:22PM
11 was put out by patient accounting; but I can't
12 say 100% for sure because it's six years -- six,
13 seven years ago.

14 Q. And with whom at Coopers & Lybrand was
15 that? 02:23PM

16 A. It probably either would have been
17 Buettner, Frazier or Kirstein. Like I said
18 before, this morning, they would call over
19 periodically, "How's things going," and the A/R
20 area was something that, generally speaking, 02:23PM
21 seemed to always be discussed. So that would --
22 if I had to narrow it down to three people, that
23 would be the three people I'd narrow it down to.

24 Q. Okay. So I take it you don't recall
25 having a particular conversation with a 02:23PM

Page 1418

1 besides Chuck Lisman and Robin Schaffer that you
2 thought this report was just propaganda?

3 A. Yeah, I think I probably had a
4 conversation with Steve. Like I say, I think we
5 had a conversation with Coopers, maybe -- 02:21PM

6 Q. Where you actually used words like
7 that, you actually said, "I think this, you know,
8 is propaganda"?

9 A. I don't know if I used that exact
10 word, but I think there was conversations where, 02:21PM
11 you know, "There was a report out there; have you
12 seen it?"

13 Q. Okay. But you can't recall whether
14 you were as critical to Coopers & Lybrand about
15 this report as you were to Chuck and Robin? 02:21PM

16 A. Oh, listen, we had very candid
17 conversations with Coopers & Lybrand about the
18 billing department, and, in fact, you know, we
19 would say -- and I guess I'm paraphrasing but,
20 you know, we would indicate, you know, "This is 02:22PM
21 some of the reasons that they're saying. This is
22 what we're seeing. You know, there's a lot of
23 debate as to who's right and who's wrong here."

24 So Coopers & Lybrand was fully aware
25 of that there was -- at times, people viewed 02:22PM

Page 1420

1 particular person about Exhibit 32?

2 A. Specifically, no, I can't remember.

3 Q. Let me hand you, Mr. Cancelmi, what's
4 previously been marked as Exhibit 147. Do you
5 recognize this memo? 02:24PM

6 A. Yes.

7 Q. And what is it?

8 A. It's a memo from Russ Laing
9 summarizing out-of-period adjustments and
10 accounts at gross. 02:24PM

11 Q. A memo he wrote to you?

12 A. Yes.

13 Q. And it looks like it's based on data
14 from July 1996 through February 1997.

15 Do you see he states in the second 02:24PM
16 bullet point about three-quarters of the way down
17 the page, "It can be seen that the entire impact
18 of properly addressing both of these longstanding
19 issues" -- I think he's referring to
20 out-of-period adjustments and accounts at 02:24PM
21 gross -- "would be a one time additional reserve
22 adjustment (increase) of approximately
23 \$5 to 6 million"?

24 A. Yes.

25 Q. Do you recall that Mr. Laing 02:25PM

<p style="text-align: right;">Page 1421</p> <p>1 recommended around this time, in the March 1997 2 time frame, taking a reserve -- a one-time 3 reserve in the amount of about \$5 to 6 million? 4 A. I think he recommended it a number of 5 times. 02:25PM 6 Q. Why was that reserve not taken? 7 MR. TORBORG: Object to foundation. 8 A. Because his fact pattern and what the 9 cause -- the root element of the problem, his 10 conclusions are wrong. 02:25PM 11 Q. (BY MR. RYAN) In what way were his 12 conclusions wrong? 13 A. Not to get into the specifics, but the 14 excuse every month for why there was 15 out-of-period adjustments was because accounts 02:25PM 16 were at gross, but the balance of accounts at 17 gross oftentimes didn't change between months. 18 So that being said, the fact that you have 19 out-of-period adjustments in a particular month 20 that would impair your net revenue line, if your 02:26PM 21 accounts at gross number is not decreasing, it 22 doesn't have an impact. 23 And what he always was saying was, "If 24 you guys would just record this, these accounts 25 at gross, all the problems would go away." And 02:26PM</p>	<p style="text-align: right;">Page 1423</p> <p>1 Q. All right. 2 A. It's that simple. 3 Q. So you're saying, then, if the amount 4 of accounts at gross remained relatively constant 5 over a particular month or quarter, then there 02:28PM 6 shouldn't be any net impact on net revenue during 7 that period due to the accounts at gross problem? 8 A. By and large, that's a fair 9 characterization. And the other thing was, even 10 though on the surface, 5 or \$6 million is a lot 02:28PM 11 of money, for a company the size of Allegheny to 12 have 5 or \$6 million of accounts at gross wasn't 13 entirely unusual for a hospital company; but it 14 always came back to whenever anyone asked, "Why 15 is the revenue numbers down," it was always, "The 02:28PM 16 accounts were at gross, and that's what's driving 17 the revenue down." 18 Q. And who at AHERF was pointing to this 19 excuse of the accounts at gross to explain poor 20 revenue numbers? 02:29PM 21 A. It was the billing department. 22 Q. And your view at the time, the real 23 reasons for declines in revenues had to do, not 24 with accounts at gross, but with operational 25 issues, with volume or rates at the hospitals, 02:29PM</p>
<p style="text-align: right;">Page 1422</p> <p>1 that wasn't the case. 2 Q. (BY MR. RYAN) Why do you say that if 3 accounts at gross remained the same from one time 4 to the next, that there shouldn't be any 5 out-of-period adjustments? 02:26PM 6 A. I didn't say that. 7 Q. I'm sorry. I thought -- I 8 misunderstood you. Could you explain that again? 9 A. What I said was the revenue, the net 10 revenue on a monthly basis, they always came up 02:27PM 11 with the answer that the reason it's low is 12 because there's accounts at gross out there that 13 aren't reserved for; and therefore, in the 14 following months when those accounts get 15 contractualized down, revenue goes down. 02:27PM 16 Well, that's not entirely accurate, 17 because they only looked at one side of the 18 fence. If you look at the other side of the 19 fence, there would be another -- there's an 20 offsetting item going the other way. 02:27PM 21 Q. I'm following you now, I think. 22 A. And they never -- they failed to 23 realize that, but it was always -- it was a 24 convenient answer as to why there was revenue 25 adjustments in a particular month. 02:27PM</p>	<p style="text-align: right;">Page 1424</p> <p>1 right? 2 A. Well, I mean, there's so many 3 different issues, I can't sit here and give, you 4 know, an opinion as to what all the issues were. 5 There's a lot of issues, and that was the point; 02:29PM 6 but it seemed like a lot of times people tried to 7 focus in on one particular issue and say that's 8 the reason for everything, and it wasn't the 9 reason for everything. 10 MR. RYAN: Let me hand you what's 02:29PM 11 previously been marked as Exhibit 150. 12 MR. TYCKO: Here, you gave me an 13 extra copy. Thanks. 14 Q. (BY MR. RYAN) Do you see Exhibit 150 15 is a memo from Bill Gedman to Greg Snow, dated 02:30PM 16 July 17th, 1997? 17 A. Yes. 18 Q. You're not showing it -- shown as one 19 of the typed copies, but I think there might be a 20 handwritten note to you, though it's very faint, 02:30PM 21 to the right of the "To" and "From" block. 22 At any rate, do you recall receiving 23 this memo? 24 A. That's my handwriting at the top. 25 Q. Oh, where it says, "cc: Al, Chuck 02:31PM</p>

Page 1529

Page 1531

I do further certify that I am not a relative, counsel or attorney for either party, or otherwise interested in the event of this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Friendswood, Texas, on this _____ day of _____, 2003.

Michael E. Miller, CSR, RPR, CRR
Certified Shorthand Reporter
in and for the State of Texas
My Commission Expires 12/31/05

DEPOSITION EXHIBITS

- Exhibit 2275 11/22/96 Memo to Distribution from Daniel J. Cancelmi, Subject: Delaware Valley Obligated Group September 30, 1996 Financial Statements (DC1245 - pages 1-14 of 29) 1339
- Exhibit 2276 Delaware Valley Obligated Group Combined Financial Statements, September 30, 1996 (DC1245, pages 15-29 of 29) 1341
- Exhibit 2277 Handwritten Notes (DC2919, page 1 of 7) 1343
- Exhibit 2278 1/18/97 Memo to Distribution from Daniel J. Cancelmi, Subject: AHERF Eastern Region November 30, 1996 Financial Statements (DC1241, pages 1-14 of 14) 1350
- Exhibit 2279 Delaware Valley Obligated Group Combined Financial Statements, November 30, 1996 (DC2777, pages 1-31 of 77) 1351
- Exhibit 2280 2/7/97 Memo to Charles P. Morrison from Daniel J. Cancelmi, Subject: Delaware Valley bad Debt Reserve Calculations (PR-SS 02854-859) 1393
- Exhibit 2281 AHERF Analysis of Reserves (DC4564, pages 1-2 of 14) 1395

Page 1530

Page 1532

INDEX

1	APPEARANCES	1261
2	REPORTER'S NOTE	1263
3	ATTORNEYS AGREEMENTS	1264
4	PROCEEDINGS	1266
5	EXAMINATION OF DANIEL CANCELMI:	
6	BY MR. RYAN:	1266
7	CERTIFICATE	1528
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

VIDEOTAPES

1	Tape 2	1347
2	Tape 3	1433
3	Tape 4	1510
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
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DEPOSITION EXHIBITS [cont'd]

- Exhibit 2282 AHERF Analysis of Reserves (DC4563, pages 1-6 of 35) 1399
- Exhibit 2283 8/7/97 Memo to David McConnell from Sherif S. Abdelhak (DC4473, page 1 of 1) 1457
- Exhibit 2284 Tab 8/Tab 15 - Allegheny General Hospital Notes to Consolidated Financial Statements, June 30, 1996 (TN C13A 01828-853) 1461
- Exhibit 2285 8/19/97 Memo to Al Adamczak from Joseph M. Scharf, Subject: Depreciation Recapture Summary (DC5187, pages 1-2 of 2) 1467
- Exhibit 2286 1/8/98 Memo to CGALL from Robin Schaffer, Subject: HIP NJ (DC6687, page 1 of 1) 1475
- Exhibit 2287 7/31/97 Fax to list from Gregory M. Snow, Re: DVR Net Revenue Budget Variances - June 1997 (DLC NR 01 0870-875) 1491

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF PENNSYLVANIA
3

4 THE OFFICIAL COMMITTEE OF

5 UNSECURED CREDITORS OF

6 ALLEGHENY HEALTH, EDUCATION &

7 RESEARCH FOUNDATION,

Civil Action

8 Plaintiff,

No. 00-684

9 vs.

10 PRICEWATERHOUSECOOPERS, L.L.P.,

11 Defendant.
12

13 Continued videotaped deposition of

14 DANIEL CANCELMI, called for examination under the

15 statute, taken before me, Michael E. Miller, CSR,

16 RPR, CRR in and for the State of Texas, at the

17 offices of Gibson, Dunn & Crutcher, 2100 McKinney

18 Avenue, Suite 1100, Dallas, Texas, on Tuesday,

19 the 25th day of November, 2003 at 9:03 a.m.
20

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22 VOLUME 6

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25

<p style="text-align: right;">Page 1614</p> <p>1 PATCOM system?</p> <p>2 MR. RYAN: Objection.</p> <p>3 A. Probably, although I don't remember</p> <p>4 where these percentages came from.</p> <p>5 Q. (BY MR. TORBORG) And when you say 10:58AM</p> <p>6 "these" percentages --</p> <p>7 A. On page 10.</p> <p>8 Q. On page 10. Okay.</p> <p>9 But given the fact that the Invision</p> <p>10 system was adopted during fiscal year '96 for 10:58AM</p> <p>11 AHERF, you believe it's probable that you may</p> <p>12 have had some input in creating these</p> <p>13 percentages?</p> <p>14 MR. RYAN: Objection,</p> <p>15 mischaracterizes the testimony. 10:59AM</p> <p>16 A. I don't know if I -- I wouldn't use</p> <p>17 the term "probable."</p> <p>18 Q. (BY MR. TORBORG) Well, who else would</p> <p>19 have been involved in creating these?</p> <p>20 A. Like I said, it may have been our 10:59AM</p> <p>21 department or it could have been Chuck Morrison</p> <p>22 and some of his folks, or it even could have been</p> <p>23 billing department people. I don't remember</p> <p>24 where those percentages came from.</p> <p>25 Q. Okay. Well, if we look at the reserve 10:59AM</p>	<p style="text-align: right;">Page 1616</p> <p>1 Q. (BY MR. TORBORG) Does that refresh</p> <p>2 your recollection at all about any concerns you</p> <p>3 may have had regarding the bad debt reserve</p> <p>4 percentages used for receivables on the PATCOM</p> <p>5 system? 11:00AM</p> <p>6 MR. RYAN: Objection.</p> <p>7 A. I think what -- well, it goes back to</p> <p>8 June '96, the PATCOM receivables were an issue</p> <p>9 and, you know, whether they were going to be</p> <p>10 collected or not, and so that, you know, was 11:00AM</p> <p>11 analyzed, I think probably fair to say, you know,</p> <p>12 fairly extensively as part of the '96 audit.</p> <p>13 The percentages, you know, the -- on</p> <p>14 the PATCOM hospitals are using gross balances as</p> <p>15 opposed to net or -- whereas the percentages on 11:01AM</p> <p>16 page 10, I believe, were applied against net</p> <p>17 balances, not gross balances. And I don't know</p> <p>18 the historical nature of the reserve percentages</p> <p>19 on the PATCOM hospitals, but, I mean, that could</p> <p>20 be what they believed their estimate was for like 11:01AM</p> <p>21 co-insurance or self-pay deductible or something.</p> <p>22 Q. (BY MR. TORBORG) Okay. You've</p> <p>23 pointed to a fact that I wanted to have you point</p> <p>24 out when I went through the net versus gross</p> <p>25 schedule and that is: For the PATCOM 11:01AM</p>
<p style="text-align: right;">Page 1615</p> <p>1 percentages on page 22, reserve percentage</p> <p>2 specifically. Let's focus on Blue Cross payor</p> <p>3 because there's a high balance there, right?</p> <p>4 A. Uh-huh.</p> <p>5 Q. You see that there is a reserve 10:59AM</p> <p>6 percentage of accounts 181 to 360 days of just</p> <p>7 1.1%, right?</p> <p>8 A. Yes.</p> <p>9 Q. And that's -- and then the same</p> <p>10 percentage applies to accounts over a year old, 10:59AM</p> <p>11 right?</p> <p>12 A. Yes.</p> <p>13 Q. 360 days, I should say. Right?</p> <p>14 A. Yes.</p> <p>15 Q. And if we compare that to the 10:59AM</p> <p>16 percentages we see on page 10 for 181 to 210,</p> <p>17 there's a reserve percentage of 60%, and then 211</p> <p>18 to 270 of 70%, and then over a year of 70%,</p> <p>19 right?</p> <p>20 A. Yes. 11:00AM</p> <p>21 Q. Those were considerably different than</p> <p>22 the reserve percentages that we see on page 22</p> <p>23 for the PATCOM system, right?</p> <p>24 A. Yes.</p> <p>25 MR. RYAN: Objection. 11:00AM</p>	<p style="text-align: right;">Page 1617</p> <p>1 receivables, you're applying loss percentages to</p> <p>2 the gross balance, right?</p> <p>3 A. That's what it looks like.</p> <p>4 Q. Whereas that's not what we're doing</p> <p>5 with the Invision, right? 11:01AM</p> <p>6 But in reality, what happens, for</p> <p>7 example, on the Blue Cross account is that you're</p> <p>8 reserving 2.2% of the net balance, right, for the</p> <p>9 balance 181 to 360 and over a year? That's not</p> <p>10 much of a difference, is it? 11:02AM</p> <p>11 MR. RYAN: Objection.</p> <p>12 A. To...</p> <p>13 Q. (BY MR. TORBORG) If you look at</p> <p>14 page 25 --</p> <p>15 A. Uh-huh.</p> <p>16 Q. -- the Blue Cross column we were</p> <p>17 looking at before, 181 to 360?</p> <p>18 A. Yes.</p> <p>19 Q. The net receivable balance is</p> <p>20 \$501,203, right? 11:02AM</p> <p>21 A. Right.</p> <p>22 Q. Yet, for that particular payor -- for</p> <p>23 those particular accounts, there's a bad debt</p> <p>24 reserve percentage of only -- or bad debt reserve</p> <p>25 of only 11,000, right? 11:02AM</p>

<p style="text-align: right;">Page 1618</p> <p>1 A. Yes. Now, I see.</p> <p>2 Q. All right. And you stated earlier</p> <p>3 that at the time of the 1996 audit, the</p> <p>4 collectability of the PATCOM receivables was in</p> <p>5 question -- 11:03AM</p> <p>6 A. Yes.</p> <p>7 Q. -- right?</p> <p>8 But you've only reserved 11,000 on</p> <p>9 this -- for this example, 11,000 of a balance of</p> <p>10 over 500,000? 11:03AM</p> <p>11 A. Yes, from the looks of it.</p> <p>12 Q. All right. Does that refresh your</p> <p>13 recollection about any concerns you may have had</p> <p>14 about the reasonableness of the bad debt</p> <p>15 reserve -- bad debt reserve percentages and, 11:03AM</p> <p>16 therefore, management's estimate for PATCOM</p> <p>17 receivables during the '96 audit?</p> <p>18 MR. RYAN: Objection.</p> <p>19 A. Well, offhand, I don't know if it was</p> <p>20 as much a concern over PATCOM receivables was the 11:03AM</p> <p>21 aging reserve percentages as -- as more as -- let</p> <p>22 me rephrase that.</p> <p>23 I'm not sure the concern was as much</p> <p>24 the reserve percentages as opposed to a more</p> <p>25 global issue as, "Here's the PATCOM receivables, 11:03AM</p>	<p style="text-align: right;">Page 1620</p> <p>1 A. Uh-huh.</p> <p>2 Q. In fact, if you would take out</p> <p>3 Exhibit 29, which should be a couple more down</p> <p>4 there in your stack. If you look at the second</p> <p>5 page of that document... 11:05AM</p> <p>6 MR. RYAN: Just hold on a minute,</p> <p>7 David. Okay.</p> <p>8 Q. (BY MR. TORBORG) You have proposed a</p> <p>9 write-off of accounts based on what criteria?</p> <p>10 A. Well, the adjustments -- if we had 11:05AM</p> <p>11 written off the accounts, based on these aging</p> <p>12 categories, this summarized what those numbers</p> <p>13 would be. And depending on the hospital, the</p> <p>14 aging category varied. You know, Center City,</p> <p>15 this was a 365 number. The 271 to 365 was the 11:06AM</p> <p>16 7,000,050. And then if you go to East Falls</p> <p>17 Hospital, I guess their computer system was</p> <p>18 different, so they didn't have the same aging</p> <p>19 category breakout. And then for</p> <p>20 St. Christopher's, Elkins and Bucks, it was the 11:06AM</p> <p>21 PATCOM numbers; I believe that would have, I</p> <p>22 guess, been in their entirety.</p> <p>23 Q. But to answer my question: You're</p> <p>24 proposing the write-off of receivables based on</p> <p>25 the age of the accounts, right? 11:06AM</p>
<p style="text-align: right;">Page 1619</p> <p>1 and are they going to be collected?" We know</p> <p>2 we've got x amount of receivables out there and</p> <p>3 there may only be x amount of reserve, no matter</p> <p>4 how the reserve was developed, and this would be</p> <p>5 one way that they were developed. 11:04AM</p> <p>6 But after you take into consideration</p> <p>7 whatever reserve was there in comparison to the</p> <p>8 receivable balance, the concern was, "Well, was</p> <p>9 that net number going to be collected.</p> <p>10 Q. (BY MR. TORBORG) So, then, is it fair 11:04AM</p> <p>11 to say that you do remember having some concerns</p> <p>12 about whether or not the PATCOM receivables were</p> <p>13 accurately -- adequately reserved and, therefore,</p> <p>14 stated at net realizable value?</p> <p>15 MR. RYAN: Objection, 11:04AM</p> <p>16 mischaracterizes his testimony.</p> <p>17 A. That was -- that was one of the audit</p> <p>18 issues.</p> <p>19 Q. (BY MR. TORBORG) Do you recall</p> <p>20 discussing that issue with Coopers & Lybrand? 11:04AM</p> <p>21 A. Yeah, I think -- yeah, that issue was</p> <p>22 brought up regarding the PATCOM receivable.</p> <p>23 Q. Now, when you eventually proposed to</p> <p>24 write off various accounts in the September of</p> <p>25 1996 time frame -- 11:05AM</p>	<p style="text-align: right;">Page 1621</p> <p>1 A. Well, I think I've testified a number</p> <p>2 of times, I don't know if it was a proposal, but</p> <p>3 if we -- if this was the method that we went</p> <p>4 about writing the accounts off, based on this</p> <p>5 methodology, these would be the numbers. 11:06AM</p> <p>6 Q. Okay.</p> <p>7 A. If the proposal was and it was</p> <p>8 implemented to pick these aging categories, these</p> <p>9 would be the numbers.</p> <p>10 Q. But you're proposing to write them off 11:07AM</p> <p>11 based on the age of the accounts, right?</p> <p>12 A. Yes.</p> <p>13 Q. Now, the existence of old accounts</p> <p>14 carried on the Delaware Valley hospitals' books</p> <p>15 was not a new issue that just occurred after the 11:07AM</p> <p>16 fiscal '96 audit, is it?</p> <p>17 A. Repeat that question again.</p> <p>18 Q. The existence of old accounts being</p> <p>19 carried on the Delaware Valley hospitals' books</p> <p>20 was not a new issue that occurred after the 1996 11:07AM</p> <p>21 audit, is it?</p> <p>22 A. No.</p> <p>23 Q. So the existence of old accounts was</p> <p>24 not new information at all that occurred after</p> <p>25 the 1996 audit, is it? 11:07AM</p>

<p style="text-align: right;">Page 1726</p> <p>1 would AHERF have done, if anything, to increase 2 the Delaware Valley account balances for 3 allowance? 4 MR. RYAN: Objection. 5 A. What would they have done? 02:46PM 6 Q. (BY MR. TORBORG) Yes. 7 A. I'm not sure exactly what they would 8 have done. If the -- I guess if the reserves 9 hadn't been transferred, may not have been -- 10 probably wouldn't have been enough reserves on 02:47PM 11 DVOG's books. 12 Q. Would AHERF have charged additional 13 bad debt expense to increase the reserves at 14 DVOG? 15 A. That would be one way of getting the 02:47PM 16 reserves -- 17 MR. RYAN: I object to the question. 18 A. -- that they would have rather go to 19 bad debt expense. 20 Q. (BY MR. TORBORG) Mr. Cancelmi, I am 02:47PM 21 showing you what has previously been marked in 22 this litigation as Exhibit 1064, and we looked at 23 this one when we first met, I believe, but I 24 wanted to ask you a question that I'm not sure 25 that I asked you last time or Mr. Whitney asked 02:48PM</p>	<p style="text-align: right;">Page 1728</p> <p>1 didn't write it, you can't tell? 2 A. Correct. 3 Q. Okay. My question is really: Do you 4 recall telling Mr. Kirstein that you didn't 5 believe that DVOG had any other general reserves 02:49PM 6 that it could use to throw out the bad debt 7 reserve problem? 8 A. I wasn't aware of any. 9 MR. RYAN: Objection. 10 A. If he's suggesting there's 50 million 02:49PM 11 of reserves out there, we weren't aware of it. 12 Q. (BY MR. TORBORG) Well, this 13 50 million could have been relating to the 14 50 million that was set up and transferred from 15 Graduate, right? 02:49PM 16 MR. RYAN: Objection. 17 A. I mean, I've got to believe that he's 18 talking about it's the same 50. 19 Q. (BY MR. TORBORG) My question is: Do 20 you recall telling Mr. Kirstein in the April '97 02:50PM 21 time frame that you did not believe that DVOG had 22 other excess general reserves to cover a bad debt 23 reserve shortfall? 24 MR. RYAN: Objection. 25 A. I don't remember specifically saying 02:50PM</p>
<p style="text-align: right;">Page 1727</p> <p>1 you. 2 And that is: I think we established 3 last time that these appeared to be handwritten 4 notes by Mr. Kirstein? 5 A. Yes. 02:48PM 6 Q. Okay. And you would recognize his 7 handwriting? 8 A. Yes. 9 Q. All right. And then it appears to be 10 a -- his notes of a conference call or meeting 02:48PM 11 you had with him as well as Mr. Buettner and 12 Ms. Frazier? 13 MR. RYAN: Objection, form, no 14 foundation. 15 A. That's what it appears to be. I don't 02:48PM 16 know if it was a conference call or in person. 17 Q. (BY MR. TORBORG) Okay. Now, under 18 the heading "50 MM Reserves at Graduate," the 19 third item under there says, "Does not believe 20 there is any general reserves other than 50 MM." 02:49PM 21 Does that mean the 50 million that was 22 transferred from Graduate to DVOG? 23 MR. RYAN: Objection, no foundation. 24 A. I assume that's what he means by that. 25 Q. (BY MR. TORBORG) Okay. But since you 02:49PM</p>	<p style="text-align: right;">Page 1729</p> <p>1 that, but, you know, we didn't think there was 2 \$50 million of reserves, general reserves out 3 there for Delaware Valley A/R. 4 Q. (BY MR. TORBORG) But you don't recall 5 specifically telling that to anyone at Coopers & 02:50PM 6 Lybrand? 7 A. I don't remember specifically, no. 8 Q. But you may have? 9 MR. RYAN: Objection. 10 A. I may have, sure. 02:50PM 11 Q. (BY MR. TORBORG) Do you recall that 12 you often discussed the amount of excess general 13 reserves on various AHERF entities' books with 14 Coopers & Lybrand? 15 MR. RYAN: Objection. 02:51PM 16 A. Could you be more specific? 17 Q. (BY MR. TORBORG) My question is more 18 general in nature, and that is: Do you recall 19 discussing the concept of general excess reserves 20 on AHERF entities' books with Coopers & Lybrand? 02:51PM 21 A. Yeah. I mean, there was reserves. 22 You know, we've looked at various reserve 23 schedules, and some of those components would 24 have -- those issues would have came up at times. 25 Q. Do you know if -- do you know if 02:51PM</p>

Page 1730

1 Coopers was aware that AHERF kept track of its
 2 excess reserves via something called an X-file?
 3 MR. RYAN: Objection.
 4 A. I don't know if they did or not.
 5 Q. (BY MR. TORBORG) Okay. Mr. Cancelmi, 02:51PM
 6 I'm handing you what we've marked as Exhibit 8
 7 previously. I suspect you'll tell me that you
 8 remember this one.
 9 A. Yeah.
 10 Q. Okay. And this, again, is a memo that 02:52PM
 11 talks about the creation of \$50 million of
 12 reserves on the Graduate hospitals for transfer
 13 to the Delaware Valley hospitals to increase the
 14 Delaware Valley hospitals' bad debt reserves,
 15 right? 02:52PM
 16 A. Correct.
 17 Q. Okay. Now, I wanted to focus on some
 18 language in the second paragraph of this document
 19 that starts with the sentence, "Granted," about
 20 eight lines down. Are you with me? 02:53PM
 21 A. Uh-huh.
 22 Q. There you wrote, "Granted, the
 23 reallocation of these reserves from the Graduate
 24 hospitals to other Delaware Valley hospitals is
 25 not the most technically appropriate resting 02:53PM

Page 1731

1 place. However, since only one set of financial
 2 statements will be prepared at the consolidated
 3 AHERF level, the precise placement of the
 4 reserves on the individual hospitals' financial
 5 statements becomes less critical. The key 02:53PM
 6 element is that at the consolidated level,
 7 sufficient consolidated reserves exist to cover
 8 the consolidated patient receivable balances,"
 9 right?
 10 A. Right. Uh-huh. 02:53PM
 11 MR. TYCKO: I think you left out one
 12 word when you were reading that. You left out
 13 the word "audited." "Since only one audited
 14 set of financial statements."
 15 MR. TORBORG: Yes, can you 02:53PM
 16 reflect -- correct the record to reflect that?
 17 Thanks.
 18 Q. (BY MR. TORBORG) Can you explain what
 19 you meant there?
 20 A. Oh, I've testified about this numerous 02:54PM
 21 times, that the rationale was that there would be
 22 reserves on a consolidated basis within the
 23 consolidated set of financial statements, and
 24 then on a consolidated basis that there would be
 25 sufficient reserves on a consolidated basis to 02:54PM

Page 1732

1 consider patient accounts receivable.
 2 Q. Do you recall, Mr. Cancelmi, whose
 3 idea it was to view the transfer of these
 4 reserves on a consolidated financial statement
 5 basis? 02:54PM
 6 MR. RYAN: Objection.
 7 A. I think I've testified a number of
 8 different times. I don't know exactly whose idea
 9 it was, but based on, you know, AHERF's
 10 management evaluation of this issue in 02:54PM
 11 conjunction with Coopers & Lybrand, it was
 12 determined that it would be okay to record these
 13 as such.
 14 Q. (BY MR. TORBORG) Okay. But you don't
 15 recall whose idea it was to view this transfer on 02:55PM
 16 a consolidated basis?
 17 MR. RYAN: Objection.
 18 A. Like I've said countless times, I
 19 don't know -- I mean, I've had conversations with
 20 Steve Spargo at the time. We were having 02:55PM
 21 conversations with Coopers & Lybrand at the time.
 22 I think I've said a number of different times I'm
 23 not sure I could tell you whose exact idea it
 24 was.
 25 Q. (BY MR. TORBORG) Let me show you 02:55PM

Page 1733

1 this. Do you recall discussing with Coopers &
 2 Lybrand in the April time frame, when this idea
 3 was initially broached, that you -- that Coopers
 4 could view in its audit these transfers on a
 5 consolidated basis? 02:56PM
 6 MR. RYAN: Objection.
 7 A. Yeah, I've testified to that a number
 8 of times that, you know, we were discussing this
 9 with Coopers at that time frame.
 10 Q. (BY MR. TORBORG) And my question is 02:56PM
 11 that specific point, which is they could look at
 12 the transfer on a consolidated basis when
 13 deciding whether or not and deciding their
 14 responsibilities as auditors?
 15 A. That was my understanding -- 02:56PM
 16 MR. RYAN: Objection.
 17 A. That was my understanding how it was
 18 being looked at, on a consolidated basis.
 19 Q. (BY MR. TORBORG) Okay. And this was
 20 something that was discussed as early as April of 02:56PM
 21 1997?
 22 MR. RYAN: Objection.
 23 A. That's my recollection.
 24 Q. (BY MR. TORBORG) Whose idea was it
 25 initially to go to a consolidated audit format 02:56PM

49 (Pages 1730 to 1733)

<p style="text-align: right;">Page 1746</p> <p>1 A. Okay.</p> <p>2 Q. And specifically focusing on the last</p> <p>3 paragraph in that first page, you wrote in this</p> <p>4 May 5th [sic], '97 memorandum to Chuck Morrison,</p> <p>5 "The third set of adjustments recorded in 03:16PM</p> <p>6 March 1997 consisted of reclassing 9.7 million of</p> <p>7 September 1996 patient revenue adjustments to the</p> <p>8 bad debt reserve accounts. As you may recall,</p> <p>9 these adjustments were initially recorded in</p> <p>10 September 1996 since the revenue results at this 03:16PM</p> <p>11 time appeared unusually low. The September</p> <p>12 adjustments were initially recorded in the</p> <p>13 balance sheet contractual allowance accounts</p> <p>14 (i.e., a debit to the contractual allowance</p> <p>15 accounts and a credit to patient revenue) and 03:17PM</p> <p>16 reclassified as a debit to the bad debt reserve</p> <p>17 accounts in March of '97 -- March of 1997,"</p> <p>18 right?</p> <p>19 A. Uh-huh.</p> <p>20 Q. Does this refresh your recollection 03:17PM</p> <p>21 about those?</p> <p>22 A. Yes.</p> <p>23 Q. Okay. Now, if one were to conclude</p> <p>24 that -- strike that.</p> <p>25 So of the \$71.3 million transferred 03:17PM</p>	<p style="text-align: right;">Page 1748</p> <p>1 debt expense, right? It would be an adjustment</p> <p>2 to patient revenue, right?</p> <p>3 MR. RYAN: Objection.</p> <p>4 A. That depends what the adjustment is</p> <p>5 related to. I mean, initially when they were 03:19PM</p> <p>6 recorded in the billing system, they went against</p> <p>7 revenue, and then management wanted to sort</p> <p>8 through them, get an understanding what was going</p> <p>9 on; so at that point, they instructed us to</p> <p>10 reverse those adjustments and they stayed 03:19PM</p> <p>11 reversed until later on in the year when they</p> <p>12 were -- the adjustments were taken against the</p> <p>13 bad debt reserve.</p> <p>14 MR. TORBORG: Let me mark, please,</p> <p>15 and I promise I won't ask you a whole lot of 03:19PM</p> <p>16 questions about this one...</p> <p>17 (Exhibit 2294 marked.)</p> <p>18 Q. (BY MR. TORBORG) For the record, what</p> <p>19 I've marked as Exhibit 2294 bears the Bates</p> <p>20 numbering DC4546, 1 of 2, through DC4614, page 1 03:20PM</p> <p>21 of 1, and I'll represent that these Bates labels</p> <p>22 were put on here by someone who scanned these</p> <p>23 documents onto an electric -- an electronic</p> <p>24 format, okay?</p> <p>25 And I ask that you turn to the second 03:20PM</p>
<p style="text-align: right;">Page 1747</p> <p>1 from the Graduate reserves to the Delaware Valley</p> <p>2 Obligated Group allowance for uncollectible</p> <p>3 accounts, right --</p> <p>4 A. Uh-huh.</p> <p>5 Q. -- some portion of that did not 03:17PM</p> <p>6 actually serve to reduce a bad debt reserve</p> <p>7 shortfall or to cover a bad debt reserve</p> <p>8 shortfall, but instead, to cover, so to speak,</p> <p>9 these patient revenue adjustments, right?</p> <p>10 A. Well, we moved over the adjustment 03:18PM</p> <p>11 into the bad debt reserve account. Initially, it</p> <p>12 was just -- the adjustment was made on the P&L,</p> <p>13 and then it was later reversed, and it was</p> <p>14 applied against the bad debt reserve account.</p> <p>15 Q. But eventually, you would have debited 03:18PM</p> <p>16 the bad debt reserve account to cover these</p> <p>17 favorable adjustments, right?</p> <p>18 A. That's eventually what did happen.</p> <p>19 Q. Right. Okay.</p> <p>20 So if one wanted to restate the 03:18PM</p> <p>21 financial statements for 1997, 1996 the</p> <p>22 adjustment of the 71.3 million transferred to bad</p> <p>23 debt accounts, the portion relating to the -- the</p> <p>24 portion that covered the favorable revenue</p> <p>25 adjustments would not be an adjustment to bad 03:18PM</p>	<p style="text-align: right;">Page 1749</p> <p>1 page of this particular exhibit. I can also</p> <p>2 represent that these documents were produced out</p> <p>3 of your files, okay?</p> <p>4 A. Okay.</p> <p>5 Q. Now, does the second page bearing the 03:21PM</p> <p>6 Bates label DC4546, page 2 of 2, does that appear</p> <p>7 to be a copy of a file folder called "Cushion</p> <p>8 Reserve"?</p> <p>9 A. Yes.</p> <p>10 Q. Okay. And then the last page in this 03:21PM</p> <p>11 collection would be the page that would signify</p> <p>12 the end of your reserve file? Actually, you</p> <p>13 wouldn't know that, so I'll strike that.</p> <p>14 Mr. Cancelmi, does the collection of</p> <p>15 documents you're holding appear to be the 03:22PM</p> <p>16 contents of a file that was titled "Cushion,</p> <p>17 backlash, Reserve"?</p> <p>18 A. Yes.</p> <p>19 Q. Okay. And what is this collection of</p> <p>20 documents? 03:22PM</p> <p>21 A. It's all the various schedules</p> <p>22 which -- at various points in time throughout</p> <p>23 various years of reserves or potential reserves</p> <p>24 or issues related to reserves.</p> <p>25 Q. All right. Mr. Cancelmi, I'm also now 03:22PM</p>

53 (Pages 1746 to 1749)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1750</p> <p>1 showing you what has previously been marked as 2 Exhibit 1692, which bears the Bates number 3 JD-DC0000100 through 153. And if you would take 4 a glance through that document and tell me if you 5 recognize it. 03:23PM 6 MR. TYCKO: I'm sorry. What was the 7 question? 8 MR. TORBORG: I'm asking him to 9 identify the document, see if he recognizes the 10 document. 03:23PM 11 A. It just looks like various schedules I 12 had on various adjustments, revenue or bad debts 13 that I had in my files. 14 Q. (BY MR. TORBORG) Does this collection 15 of documents appear to be a file for revenue 03:24PM 16 adjustments made throughout fiscal year 1996? 17 MR. RYAN: Objection. 18 A. I'd have to look at every one of them. 19 It looks like, you know, it goes back a number of 20 months. 03:24PM 21 Q. (BY MR. TORBORG) Okay. Do you 22 recall, Mr. Cancelmi, that throughout fiscal year 23 1996 AHERF recorded a number of revenue 24 adjustments that served to increase net patient 25 service revenue? 03:24PM</p>	<p style="text-align: right;">Page 1752</p> <p>1 right? 2 A. Yes. 3 Q. Okay. Do you recall whether you 4 utilized reserves contained on the reserve 5 schedule in order to -- or when I say you, I 03:26PM 6 mean, AHERF -- utilized reserves contained on the 7 reserve schedule in order to make revenue 8 adjustments? 9 A. Yes. 10 Q. Do you recall that throughout fiscal 03:27PM 11 year 1996, AHERF utilized a significant amount of 12 reserves to improve the bottom line for 1996? 13 A. I don't remember the dollar amount, 14 but, I mean, looks from here -- it looks like a 15 lot of cost report reserves were used and -- 03:27PM 16 Q. Okay. 17 A. -- other reserves. 18 Q. I'd like to hand you what has been 19 marked previously as Exhibit 1340. 20 MR. TORBORG: And for the record, it 03:27PM 21 is a June -- it is a work paper for the 1996 22 audit, "Issue Topic, Nonrecurring Income in the 23 Current Year." 24 Q. (BY MR. TORBORG) If you would look at 25 that document. 03:28PM</p>
<p style="text-align: right;">Page 1751</p> <p>1 A. Yeah. I mean, I think, you know, some 2 of those adjustments are outlined in here. 3 Q. Mr. Cancelmi, if you would flip back 4 to what we've marked as Exhibit 2294, 5 specifically at the Bates page ending DC4588, 03:25PM 6 page 5 of 8. 7 A. Okay. 8 Q. Okay. And can you identify this 9 document for me, this particular page? 10 A. It's another one of the reserve 03:26PM 11 schedules. This one looks like it has 12 January '96 numbers on it and June '95. 13 Q. Do you see under the section for 14 HUH -- which I take it is Hahnemann University 15 Hospital? 03:26PM 16 A. Yes. 17 Q. -- you have listed some various 18 reserves and then at the end of that, there's 19 something called FY '96 revenue adjustment? 20 A. Yes. 03:26PM 21 Q. In the amount of 12,522,000? 22 A. Uh-huh. 23 Q. And then at the end of the -- toward 24 the end of the next section, "Others," we see 25 some revenue adjustments for other entities, 03:26PM</p>	<p style="text-align: right;">Page 1753</p> <p>1 A. Okay. 2 Q. Mr. Cancelmi, let me ask you first: 3 When you were at Coopers & Lybrand, were you 4 familiar with the concept of something being an 5 issue? 03:28PM 6 A. An issue? 7 Q. Issue, I-S-S-E-U. There being an 8 issue? 9 A. E-U or U-E? 10 Q. I think I mean U-E. 03:28PM 11 A. Okay. 12 Q. It's been a long day. 13 A. Yeah, I know. 14 Q. Issue. 15 A. Yeah. I'm not sure what you're 03:29PM 16 referring to. 17 Q. Okay. You don't recall that during 18 your time at Coopers & Lybrand, certain financial 19 reporting issues were deemed to be important 20 enough to be called an issue? 03:29PM 21 A. I think that was after my time there. 22 Q. Okay. 23 A. They called them MAP items when I was 24 there. 25 Q. Okay. Which would be matters for the 03:29PM</p>

54 (Pages 1750 to 1753)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1754</p> <p>1 attention of partner?</p> <p>2 A. Right.</p> <p>3 Q. Okay. Do you recall a matter for the</p> <p>4 attention of a partner classification called</p> <p>5 "Financial Statement Disclosure"? 03:29PM</p> <p>6 MR. RYAN: Objection.</p> <p>7 A. For AHERF?</p> <p>8 Q. (BY MR. TORBORG) No.</p> <p>9 A. Oh.</p> <p>10 Q. Just the concept, generally, of that. 03:29PM</p> <p>11 A. No, there was no standard. The only</p> <p>12 standard MAP item that I remember was the SUD.</p> <p>13 Everything else was -- was unique to that</p> <p>14 particular audit.</p> <p>15 Q. Okay. Do you see in this particular 03:29PM</p> <p>16 work paper Coopers has noted some income that is</p> <p>17 nonrecurring that was recorded in fiscal</p> <p>18 year '96?</p> <p>19 A. Yes.</p> <p>20 Q. Specifically, 7.4 relating to 03:30PM</p> <p>21 noncurrent CRA reserves and 12 million of other</p> <p>22 CRA reserves, perhaps relating to PIP activity as</p> <p>23 well, and then another 5.2 relating to Health</p> <p>24 Partners?</p> <p>25 A. Yes. 03:30PM</p>	<p style="text-align: right;">Page 1756</p> <p>1 MR. TORBORG: Okay. Almost done.</p> <p>2 We'll charge through, and I'll be done.</p> <p>3 MR. TYCKO: "Charging through" is a</p> <p>4 relative term in this case.</p> <p>5 MR. TORBORG: I've got something 03:32PM</p> <p>6 else I have to do. Why don't we take a break.</p> <p>7 I won't need more than ten minutes.</p> <p>8 THE VIDEOGRAPHER: We're off the</p> <p>9 record at 3:32 p.m. This concludes Tape No. 6.</p> <p>10 (Recess taken.) 03:32PM</p> <p>11 (Exhibit 2295 marked.)</p> <p>12 THE VIDEOGRAPHER: We're back on the</p> <p>13 record at 3:44 p.m. This is the beginning of</p> <p>14 Tape 7.</p> <p>15 Q. (BY MR. TORBORG) Welcome back, 03:43PM</p> <p>16 Mr. Cancelmi. I've marked as Exhibit 2295, a</p> <p>17 one-page document entitled "Lockhart Trusts</p> <p>18 Summary," and have you had the opportunity to</p> <p>19 review that document?</p> <p>20 A. Yes. 03:43PM</p> <p>21 Q. Okay. Did you create this document?</p> <p>22 A. Yeah. I mean, it looks like my</p> <p>23 secretary typed it.</p> <p>24 Q. Okay.</p> <p>25 A. Me and Carolyn probably would have 03:44PM</p>
<p style="text-align: right;">Page 1755</p> <p>1 Q. Do you recall any discussions with</p> <p>2 Coopers & Lybrand in conjunction with the '96</p> <p>3 audit about what disclosure, if any, of that</p> <p>4 nonrecurring revenue may need to be made in the</p> <p>5 financial statements? 03:30PM</p> <p>6 A. Offhand, I don't remember specifically</p> <p>7 whether there was a -- whether we had a</p> <p>8 discussion, whether it needed to be disclosed</p> <p>9 separately. The cost report adjustments -- I'm</p> <p>10 trying to remember. There actually may have been 03:30PM</p> <p>11 a disclosure. I'm not sure.</p> <p>12 Q. Well, the cost report disclosures</p> <p>13 would be something that is a standard part of the</p> <p>14 footnote disclosure in every one of AHERF's</p> <p>15 fiscal year audits, right? 03:31PM</p> <p>16 A. Yes.</p> <p>17 Q. All right. Not anything particular to</p> <p>18 a particular fiscal year, right?</p> <p>19 MR. RYAN: Objection.</p> <p>20 A. No, it's sort of standard practice, 03:31PM</p> <p>21 depending how big they are. Some hospitals</p> <p>22 disclose cost report adjustments, but others</p> <p>23 don't. It just -- I guess it depends. I mean, a</p> <p>24 lot of places do, but then there's others that</p> <p>25 don't. 03:31PM</p>	<p style="text-align: right;">Page 1757</p> <p>1 worked on it.</p> <p>2 Q. Okay. And what does this document do?</p> <p>3 A. It summarizes the activity in the</p> <p>4 Lockhart trusts for '96, '97 and '98.</p> <p>5 Q. And does it show the -- amongst other 03:44PM</p> <p>6 things, the income statement impact of the</p> <p>7 reclassifications of what we've called the</p> <p>8 Lockhart trusts?</p> <p>9 MR. RYAN: Objection.</p> <p>10 A. It shows the various income statement 03:44PM</p> <p>11 activity for the various transactions related to</p> <p>12 Lockhart trusts during those particular years.</p> <p>13 Q. (BY MR. TORBORG) If you'd keep that</p> <p>14 to one side, I'd like to hand you now what's</p> <p>15 previously been marked as Exhibit 19. 03:45PM</p> <p>16 A. Okay.</p> <p>17 Q. For the record, Exhibit 19, the first</p> <p>18 page is titled "Allegheny Health, Education and</p> <p>19 Research Foundation Analysis of Endowments,</p> <p>20 June 30, 1996." 03:45PM</p> <p>21 Mr. Cancelmi, do you recognize the</p> <p>22 first page of this document?</p> <p>23 A. Yes.</p> <p>24 Q. Okay. And do you recognize it based</p> <p>25 on your review of this document in and around the 03:45PM</p>

55 (Pages 1754 to 1757)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1758</p> <p>1 1996 audit time frame or afterwards? 2 A. Probably after. 3 Q. Okay. Does it appear as though, if we 4 look at the table below, it says "Special Purpose 5 Fund - Temporarily Restricted" and it has an 03:46PM 6 account number there, and there's a balance 7 listed there of approximately \$70.7 million? 8 A. Yes. 9 Q. Right. 10 And that's the combination, is it not, 03:46PM 11 of the unrealized and -- unrealized gains and 12 realized gains as of June 30th, 1995, for the 13 five AHERF irrevocable trusts? 14 A. Yes. 15 Q. Right. 03:46PM 16 MR. RYAN: Could I get that last 17 question read back, please? 18 (The following portion of the record 19 was read.) 20 "QUESTION: And that's the 21 combination, is it not, of the unrealized 22 and -- unrealized gains and realized gains as 23 of June 30th, 1995, for the five AHERF 24 irrevocable trusts?" 25 MR. RYAN: We need to go back one</p>	<p style="text-align: right;">Page 1760</p> <p>1 A. Yes, I see that. 2 Q. (BY MR. TORBORG) Okay. There's an 3 aggregate \$4,478,000 that in Exhibit 2295 is 4 titled "Assets Released from Restriction," and 5 that had an income statement impact, right? 03:48PM 6 MR. RYAN: Objection. 7 A. Yes. 8 Q. (BY MR. TORBORG) Okay. And then 9 there is a -- something called in this schedule a 10 transfer to unrestricted fund balance of 03:48PM 11 13,456,000, right? 12 A. Yes. 13 MR. RYAN: Objection. 14 Q. (BY MR. TORBORG) And that matches the 15 figure that we see on Exhibit 19, right? 03:49PM 16 A. Yes. 17 Q. Okay. Now, does it appear as though 18 one of these items went to the income statement 19 and the other one did not? Is that right? 20 MR. RYAN: Objection. 03:49PM 21 A. Yes. 22 Q. (BY MR. TORBORG) Do you know why 23 there was a difference in that treatment? 24 MR. RYAN: Objection. 25 A. I don't -- I don't know what that 13.4 03:49PM</p>
<p style="text-align: right;">Page 1759</p> <p>1 more. I'm sorry. I missed what the "that" 2 referred to. 3 (The following portion of the record 4 was read.) 5 "QUESTION: Does it appear as 6 though, if we look at the table below, it says 7 "Special Purpose Fund - Temporarily Restricted" 8 and it has an account number there, and there's 9 a balance listed there of approximately 10 \$70.7 million, right?" 03:47PM 11 MR. RYAN: Thanks. Sorry, David, to 12 interrupt. 13 MR. TORBORG: That's fine. 14 Q. (BY MR. TORBORG) And that amount of 15 70 point, roughly, 7 million dollars matches a 03:47PM 16 number we see on Exhibit 2295 at the top of the 17 page, "Temporary Fund Balance," fund balance at 18 7/1/95? 19 A. Yes. 20 Q. Right. Okay. 03:47PM 21 Now, do you see on Exhibit 19 there 22 appears to have been some reductions in the 23 temporarily restricted category throughout fiscal 24 year 1996 as also reflected in Exhibit 2295? 25 MR. RYAN: Objection to form. 03:48PM</p>	<p style="text-align: right;">Page 1761</p> <p>1 related to. Just... 2 Q. (BY MR. TORBORG) Now, this left a 3 temporarily restricted balance of 52,787,000 and 4 change at the end of fiscal year '96, right? 5 A. Yes. 03:49PM 6 Q. Okay. 7 (Exhibit 2296 marked.) 8 MR. TORBORG: For the record, I've 9 marked as Exhibit 2296 a document bearing the 10 Bates numbers CL 010415 through 420, and it 03:50PM 11 appears to be a production out of Coopers & 12 Lybrand -- Coopers & Lybrand's work paper files 13 for the '96 audit. 14 Q. (BY MR. TORBORG) And, Mr. Cancelmi, 15 if you would flip through these -- this 03:50PM 16 particular schedule for me. 17 A. Okay. 18 Q. Okay. Do you recognize the schedules 19 in Exhibit 2296? 20 A. Yeah, I guess so. 03:51PM 21 Q. Do you recall them from your review of 22 the schedules during the '96 audit or afterwards? 23 A. Well, probably afterwards, 24 because '96, I don't think I was involved in '96. 25 Q. Okay. If you would flip to the Bates 03:52PM</p>

56 (Pages 1758 to 1761)

Page 1810	Page 1812
<p>1 CERTIFICATE</p> <p>2</p> <p>3 The State of Texas,)</p> <p>4 SS:</p> <p>5 County of Galveston.)</p> <p>6</p> <p>7 I, Michael E. Miller, CSR, RPR, CRR,</p> <p>8 Certified Shorthand Reporter in and for the State</p> <p>9 of Texas, duly commissioned and qualified, do</p> <p>10 hereby certify that the within named witness,</p> <p>11 DANIEL CANCELMI, was by me first duly sworn to</p> <p>12 testify the truth, the whole truth and nothing</p> <p>13 but the truth in the cause aforesaid; that the</p> <p>14 testimony then given by the above-referenced</p> <p>15 witness was by me reduced to stenotype in the</p> <p>16 presence of said witness; afterwards transcribed,</p> <p>17 and that the foregoing is a true and correct</p> <p>18 transcription of the testimony so given by the</p> <p>19 above-referenced witness.</p> <p>20 I do further certify that this</p> <p>21 deposition was taken at the time and place in the</p> <p>22 foregoing caption specified and was completed</p> <p>23 without adjournment.</p> <p>24</p> <p>25</p>	<p>1 INDEX</p> <p>2 REPORTER'S NOTE 1543</p> <p>3 ATTORNEYS' AGREEMENTS 1545</p> <p>4 PROCEEDINGS 1547</p> <p>5 EXAMINATION OF DANIEL CANCELMI:</p> <p>6 BY MR. RYAN: 1547</p> <p>7 BY MR. TORBORG: 1594</p> <p>8 BY MR. RYAN: 1777</p> <p>9 BY MR. TORBORG: 1808</p> <p>10</p> <p>11 CERTIFICATE 1810</p> <p>12</p> <p>13 VIDEOTAPES</p> <p>14 Tape 4 1547</p> <p>15 Tape 5 1594</p> <p>16 Tape 6 1682</p> <p>17 Tape 7 1756</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
Page 1811	Page 1813
<p>1 I do further certify that I am not a</p> <p>2 relative, counsel or attorney for either party,</p> <p>3 or otherwise interested in the event of this</p> <p>4 action.</p> <p>5</p> <p>6 IN WITNESS WHEREOF, I have hereunto set</p> <p>7 my hand and affixed my seal of office at</p> <p>8 Friendswood, Texas, on this _____ day of</p> <p>9 _____, 2003.</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14 _____</p> <p>15 Michael E. Miller, CSR, RPR, CRR</p> <p>16 Certified Shorthand Reporter</p> <p>17 in and for the State of Texas</p> <p>18 My Commission Expires 12/31/05</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p>1 DEPOSITION EXHIBITS</p> <p>2</p> <p>3 Exhibit 2288 3/23/98 Letter to Alan 1548</p> <p>4 Adamczak from William F.</p> <p>5 Buettner</p> <p>6 (DBR-AA 36920-922)</p> <p>7 Exhibit 2289 11/1/93 Memo to Files from 1551</p> <p>8 Daryle Yergler, Subject:</p> <p>9 Graduate REIT Transaction</p> <p>10 (PR-PLD-037-00513 through</p> <p>11 518)</p> <p>12 Exhibit 2290 11/4/94 Letter to Diane K. 1553</p> <p>13 Schrecengost from Daniel J.</p> <p>14 Cancelmi</p> <p>15 (DM1379.TIF, pages 1-36</p> <p>16 of 36)</p> <p>17 Exhibit 2291 8/25/98 Memo to Joseph D. 1570</p> <p>18 Dionisio from Daniel J.</p> <p>19 Cancelmi, Subject: Initial</p> <p>20 Accounting for Transfer of</p> <p>21 AHERF Irrevocable Trusts</p> <p>22 (DC8309, pages 1-4 of 4)</p> <p>23 Exhibit 2292 8/28/98 Memo to Al Adamczak 1576</p> <p>24 from Daniel J. Cancelmi,</p> <p>25 Subject: Proposed</p> <p>Restatement of Audited</p> <p>Fiscal 1997 Financial</p> <p>Statements</p> <p>(CLIS 0143-152)</p> <p>Exhibit 2293 AHERF Account Review - 1714</p> <p>Summary of Contractual</p> <p>Allowances Needed for</p> <p>Adjusting AR Valuation,</p> <p>Detailed Review</p> <p>(DBR-AA 52485)</p> <p>Exhibit 2294 "Cushion/Reserve File" 1748</p> <p>(Various Bates ranges,</p> <p>beginning with DC4546,</p> <p>page 1 of 2)</p>